

Message Text

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PAGE 01 PARIS 28491 312044Z

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ACTION TRSE-00

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4785

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E.O. 11652: N/A

TAGS: EFIN, IBRD, IMF, FR

SUBJECT: FRENCH VIEWS ON DEVELOPMENT SECURITY

REF: STATE 221319; B. STATE 253644

1. BAQUIAST, OFFICE DIRECTOR FOR INTERNATIONAL FINANCIAL ORGANIZATIONS AT FRENCH TREASURY TOOK OCCASSION OF EMBOFF'S CALL PER INSTRUCTIONS REF. B TO OUTLINE FRENCH POSITION ON ENTIRE DEVELOPMENT SECURITY QUESTION. ALTHOUGH MUCH OF THIS IS UNDOUBTEDLY KNOWN AT DEPARTMENT AND TREASURY, WE ARE REPEATING SUBSTANCE OF HIS REMARKS, BY SUBJECT.

2. COMPENSATORY FINANCING FACILITY. BAQUIAST NOTED THAT U.S. PROPOSALS WERE NOT ENTIRELY NEW AND THAT GOF HAD ALREADY PROPOSED SIMILAR LIBERALIZATION, INCLUDING

A. RAISE ANNUAL LIMIT FROM 25 TO 50 PERCENT OF QUOTA (ON CONDITIONS "SIMILAR TO U.S.")

B. RAISE CUMULATIVE LIMIT FROM 50 TO 75 PERCENT OF QUOTA

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PAGE 02 PARIS 28491 312044Z

C. RAISE COMBINED LIMIT OF COMPENSATORY FINANCING
AND BUFFER STOCK FACILITIES TO 100 PERCENT

ON COMPUTATION OF COMPENSABLE SHORTFALL, BAQUIAST NOTED
THAT WHILE GOF HAD AT ONE TIME PROPOSED INCREASE IN
EXPORT FORECAST LIMIT TO 15 PERCENT, PRESENT GOF THINK-
ING IS THAT THIS MECHANISM SHOULD BE ABOLISHED OR
LOOSENERED VERY MUCH MORE. IDEALLY, COMPENSATION SHOULD
BE MADE ON BASIS OF FUTURE TENDENCY FORECAST, WHATEVER
THIS TENDENCY IS, RATHER THAN CLAMPING ARBITRARY LIMITS
ON IT. LIMITS SHOULD BE CONFINED TO QUOTAS. GOF
WAS ALSO WILLING TO INCLUDE INVISIBLES IN EXPORT
COMPENSATION, BUT OPPOSED INCLUSION OF VARIATIONS IN
IMPORT COSTS. GOF BACKED FUND PROPOSALS ON RECLASSI-
FICATION OF FACILITY DRAWINGS TO REGULAR FUND DRAWINGS.

3. TRUST FUND. "A PRIORI", GOF DOES NOT EXCLUDE
ANY PROPOSED USE OF TRUST FUND, BAQUIAST NOTED. HE
THEN WENT ON TO RESTATE FAMILIAR FRENCH RESERVATION
THAT USE OF GOLD-SALE MECHANISM WILL SO REDUCE PRICE
OF GOLD THAT ITS BENEFITS WILL BE FAR LESS THAN EXPECTED.

4. COMPENSATORY FINANCING VERSUS PRICE STABILIZATION.
BAQUIAST DEVELOPED FRENCH ARGUMENTS FAVORING LATTER OVER
FORMER.

A. COMPENSATORY FINANCING IS A LOAN, NOT A "REAL
RECEIPT" WHICH IS WHAT IS NEEDED. LOANS, IN GOF VIEW,
SHOULD BE USED FOR PROJECTS WHICH GENERATE MEANS OF
REPAYMENT.

B. COMPENSATORY FINANCING IS EX POST RELIEF. IT
IS BETTER TO ESTABLISH JUST PRICES THAN TO PLACE HEAVY
WEIGHT ON CREDIT TO COMPENSATE UNJUST ONES.

C. THERE ARE TWIN DANGERS THAT EITHER COMPENSATORY
FINANCING CREDIT WILL BE SPARSELY USED AND LDC'S
WILL SUFFER, OR THEY WILL BE HEAVILY DRAWN ON WITH
CONSEQUENTAL POSSIBILITY OF DEFAULTS ON REPAYMENT.

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PAGE 03 PARIS 28491 312044Z

5. RESERVATIONS ABOUT THE PROLIFERATION OF MECHANISMS.
ACCORDING TO BAQUIAST, NEW DEVELOPMENT SECURITY AGENCY
PROPOSED IN SECRETARY'S U.N.G.A. SPEECH COULD
AMOUNT TO A NEW PARALLEL ORGANISATION ONLY THEORETICALLY
WITHIN IMF. GOF IS AGAINST IDEA OF A NEW FACILITY.

6. TACTICS. GOF DOES NOT EXPECT THAT MUCH CAN BE
ACCOMPLISHED IN IMF CONTEXT BEFORE NORTH-SOUTH

DIALOGUE PROGRESSES MUCH FURTHER.

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